



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0637	Title:	Provide income tax exemption for military service
Primary Sponsor:	Klock, Harry	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$3,408,000)	(\$1,169,000)	\$0	\$0
Net Impact-General Fund Balance	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact:

This bill would exempt military pay of Montana National Guard and Reserve members from state income tax. This would reduce general fund revenue by \$3.4 million in fiscal year 2008 and \$1.169 million in fiscal year 2009.

FISCAL ANALYSIS

Assumptions:

1. Current law (15-30-116, MCA) exempts military salaries of members of the armed forces on active duty from the state income tax. This bill would expand that exemption to cover the military salaries paid to national guard and reserve members, beginning with tax year 2007. The bill terminates the end of 2008. It would not exempt the salaries of civilian employees or salaries earned in connection with disaster or emergency service.
2. Total salaries paid to the Montana National Guard that would be exempted by this bill were \$33.7 million in 2006 (Department of Military Affairs). Total salaries in future years are assumed to be the same.
3. The number of Montana reservists is 27.5% of the number of National Guard members (U.S. Department of Defense). Assuming that, on average, annual salaries for reservists and Guard members are the same,

total salaries paid to Montana Guard and Reserve members are \$43.0 million per year ($127.5\% \times \33.7 million).

4. For 2005, the average marginal tax rate of residents with taxable income was 5.44%. The average marginal rate will be the same in future years.
5. This bill will reduce tax liability by \$2.339 million ($5.44\% \times \43.0 million) per year in tax years 2007 and 2008.
6. This bill would be effective on passage and approval. State taxes would no longer be withheld from Guard and Reserve members' military salaries, beginning in July 2007. In addition, Guard and Reserve members would have \$1.169 million in taxes that were withheld in the first half of 2007 refunded in the spring of FY 2008. This bill would therefore reduce general fund revenue by \$3.408 million in FY 2008 ($\$2.239$ million + $\$1.169$ million). In FY 2009 state taxes would not be withheld for six months of the fiscal year, thereby reducing general fund revenue by \$1.169 million ($2.239 \times .5$). The bill terminates on December 31, 2008 (midway through FY 2009).
7. This bill would not affect the Department of Revenue's costs of administering the individual income tax.

	<u>FY 2008</u> <u>Difference</u>	<u>FY 2009</u> <u>Difference</u>	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Revenues	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>(\$3,408,000)</u>	<u>(\$1,169,000)</u>	<u>\$0</u>	<u>\$0</u>

Sponsor's Initials

Date

Budget Director's Initials

Date